

**SOUTH CAROLINA
DEPARTMENT OF AGRICULTURE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

September 5, 2018

The Honorable Hugh E. Weathers, Commissioner
South Carolina Department of Agriculture
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Agriculture (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

This report is intended solely for the information and use of the management of the South Carolina Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor**Agreed - Upon Procedures Related to the South Carolina Department of Agriculture (P16)****Cash Receipts/Revenues**

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$100,000 and 10% for the General Fund, \$1,400,000 and 10% for the Earmarked Fund, \$150,000 and 10% for the Restricted Fund, and \$400,000 and 10% for the Federal Fund.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payer, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117 .1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty-five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$700,000 and 10% for the General Fund, \$350,000 and 10% for the Earmarked Fund, \$35,000,000 and 10% for the Restricted Fund, and \$100,000 and 10% for the Federal Fund.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$700,000 and 10% for the General Fund, \$350,000 and 10% for the Earmarked Fund, \$35,000,000 and 10% for the Restricted Fund, and \$100,000 and 10% for the Federal Fund.

8. Randomly select twenty-five employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Haphazardly select five bonus pay disbursements to determine:

- Employee does not make more than \$100,000 annually.
- Bonuses received during the year did not exceed \$3,000.
- Transaction was appropriately documented and approved.

10. Haphazardly select fifteen employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

11. Haphazardly select fifteen employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

12. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10%.

13. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

14. Randomly select twenty-five journal entries and three transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

15. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

Finding

The Department was unable to provide documentation that a year-end inventory was completed during fiscal year 2017.

Management's Response

There was evidence of completion of the inventory, but no documentation of the date of completion. The Administrative Coordinator in the Administration program area has been assigned the task of documenting the completion an annual inventory of assets.

Reporting Packages

17. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
18. In addition to the procedure above, perform the following:
 - Prepaid Expenses Reporting Package

Determine if amounts agree to the South Carolina Enterprise Information System (SCEIS) Yearend Reporting - Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select five prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.
 - Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Department prepared records.

Reporting Packages (Continued)

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected contingent rental payments; (2) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (Payments for Supplies and Other Billing Charges and Other Adjustments); and (3) All future rental payments to be received for property leased to others.

- Accounts Payable

Determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor and/or Court prepared records. Haphazardly select five payable transactions to determine if reported amounts were properly identified, classified, and reported based on the inspection of the applicable documentation.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select three payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission. Compare the Annual Leave, Holiday Leave, and Compensation Time balances for each employee from the Comptroller General's Office's Compensated Absence Report, to the 6/30/2017 balances in SCEIS to determine if the Department had any late submissions of leave.

Findings

Prepaid Expenses Reporting Package

The Department overstated the current and total prepaid balances and understated the expensed balance on the Prepaid Expenses Reporting Package by \$15,352.

Operating Leases Reporting Package

The Department understated future minimum lease payments for one lease by \$445,210 on the Operating Leases Future Minimum Payment Schedule. The Department reported the current payments of \$17,160 for another lease as an Other Adjustment on the Operating Lease Summary Form - Lessee. However, these payments should have been reported on the Operating Leases Future Minimum Payment Schedule as current expense. In addition, the future minimum lease payments of \$299,287 associated with this lease should also have been reported on the Schedule.

On the Operating Lease Summary Form - Lessor, the Department overstated accumulated depreciation for the total cost of property leased to others under operating leases by \$1,811,451.

Rental expenditures of \$27,500 for the rental of property from two state entities should have been charged to G/L account number 5040070000 (Rent - ST Owned R Prop) instead of G/L account number 5040060000 (Rent - Non ST Owned R Prop).

Reporting Packages (Continued)

Findings (Continued)

Capital Assets Reporting Package

The Department responded on the Capital Assets Questionnaire that its acquisitions plus transfers-in and retirements plus transfers-out did not equal the debit and credit balances reflected in SCEIS, respectively. However, the Department did not include this information on the Reconciliation of SCEIS Asset History Report Activity to General Ledger Activity. We observed an aggregate variance of \$16,082,648 between these balances that should have been reported.

In addition, the Department responded on the Capital Assets Questionnaire that it did not have uncompleted contracts for development or construction (capital projects or repair and maintenance) as of June 30. However, per our inspection of the SCEIS Asset History Sheet, the Department had an asset under construction of \$1,863,657 related to its Metrology Lab. Per our discussion with Department personnel during our fieldwork, the Department should have responded yes to this question.

See **Appropriation Act** section for finding regarding year-end inventory count documentation.

Subsequent Events Reporting Package

Question #14 on the Subsequent Events Questionnaire asks if agencies have identified any late submissions of leave. The Department answered no to this question. We compared balances reported on the CG's Compensated Absence Report as of June 30, 2017 to balances reported in SCEIS and identified a total variance of \$3,698 as a result of late submissions of leave. Therefore, the Department should have responded yes to question #14 and should have reported adjustments of leave to the CG.

Management's Response

Prepaid Expenses Reporting Package

The annual rent (4/1/17 - 3/31/18) was \$184,225, or \$15,352 monthly expense. Only 2 months of expense, \$30,704, were reported in the FY17 package. 3 months (April, May & June) of expense, \$46,056, in FY17 should have been reported. A Prepaid Expense Reporting Package was not required in FY18 because 12 months of expenditure had been recorded in the current year for this recurring item that has been in existence (ref. question 20 of SEC Master Form Questionnaire).

Operating Leases Reporting Package

The Building C lease was recorded on the Future Minimum Lease Schedule by the previous accounting staff using the terms of the original lease, not the amended lease. They also failed to report the lease payments to Lexington County Development Corp. Both were properly reported on the FY18 schedule.

The Operating Lease Summary issue is two-fold. During construction of the new Columbia State Farmers Market, SCEIS included all costs on one asset. That asset included costs for buildings we did not lease to other entities, so SCDA used an Excel spreadsheet until SCEIS introduced their Project Systems module. Also, SCEIS does not have the correct properties associated with funds 31200000, 30330000 and 33000000. We will work to get the properties classified appropriately.

Improper Coding of Expenditures for Clemson University was also coded incorrectly in FY18 as it was discovered after year end. It will be properly coded in FY19.

Capital Assets Reporting Package

We do not have an explanation for the previous accounting staff's responses on the Capital Assets Reporting Package. Only a partial reconciliation (\$146,856) was provided on tab 3.08.5, and the Metrology Lab was still under construction 6/30/17. Administration staff are enrolled in the Asset Master and Asset Reporting SCEIS class in October 2018.

Reporting Packages (Continued)

Management's Response (Continued)

Subsequent Events Reporting Package

After the questionnaire was submitted, an investigation revealed an employee did not work hours that were submitted and approved as work hours. Adjustments were made retroactively, and the agency possesses the documentation associated with this case. This was a unique situation. Going forward, Administration and Human Resources will communicate and coordinate appropriate subsequent adjustments and reporting.

Capital Assets

19. Haphazardly select five capital asset acquisitions and inspect supporting documentation to determine the asset purchase was properly capitalized and posted to the general ledger as to amount and account, assigned the proper useful life in accordance with State policy and complied with applicable State laws.
20. Haphazardly select three capital asset retirements and inspect supporting documentation to determine the asset was originally recorded in the proper asset class, properly removed from the Department's books and the disposal was properly approved.

Findings

An asset for \$48,374 was capitalized to Buildings (G/L account number 1801005000). The Comptroller General's Reporting Policies and Procedures require buildings over \$100,000 to be capitalized; therefore, this asset should have been capitalized as a low value asset (G/L account number 1801099000).

The Department removed an asset for \$121,298 from SCEIS. Department personnel stated the asset is currently in use and was removed in error.

Management's Response

This shed will be reclassified to a Low Value Asset.

There was confusion about how this piece of laboratory equipment was to be classified because the agency was involved in a lease-to-own arrangement. As previously stated, accounting staff will be receiving training on asset management, and will review asset classification in FY19.

Governance, Risk and Compliance (GRC)

21. Select the two controls identified through the SCEIS GRC system that were implemented in fiscal year 2017 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedures.

Procurement Card Transactions

22. Haphazardly select fifteen procurement card transactions from the Comptroller General's listing of procurement card transactions and inspect supporting documentation to determine:
 - The cardholder is an authorized user.
 - The purchase is authorized based on the cardholder's job title/position.

Procurement Card Transactions (Continued)

- The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
- The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Travel Advances

23. Haphazardly select five travel advances and inspect supporting documentation to:

- Determine the travel advance was not made to an employee for travel within the State without proper approval from the Comptroller General.
- Determine the travel advance was not made for more than 80% of the estimated amount of total travel expenses or made in instances where 80% of the estimated travel expense does not exceed \$250.
- Determine that the Department maintained adequate records/supporting documentation regarding the advance.
- Determine that the travel advance was submitted for approval no later than seven business days prior to the beginning of the trip.
- Confirm the traveler repaid the advance within thirty days after the end of the trip.

Finding

One employee did not repay a travel advance of \$4,962 within thirty days after the end of the trip.

Management's Response

The travel advance in question was repaid, but not in the thirty-day timeframe. Supervisors are being trained to assist Accounts Payable staff to monitor for repayment of travel advances.

Other Reports

24. Inquire of management of any reports issued by external parties and discuss any recommendations and/or issues.

We found no other matters related to our agreed-upon procedures.

Status of Prior Findings

25. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found similar exceptions during our inspection of the Operating Leases Reporting Package and the Capital Assets Reporting Package. See findings in **Reporting Packages**.